

~~SECRET~~

30 November 1955

ECONOMIC PENETRATION BY THE SINO-SOVIET BLOC:
NOTES ON THE ORGANIZATION OF INTELLIGENCE
SUPPORT FOR A COORDINATED U.S. PROGRAM

I. Background

A. For the past several years, the Bloc has been assiduously promoting its economic relations with certain non-COCOM areas, partly (perhaps) for commercial reasons but primarily as a means of gaining political and economic influence, or as an entering wedge for espionage and subversion. This phenomenon has come to be known as "economic penetration". As used in the EDAC structure, the term "economic penetration" refers specifically, though not exclusively, to transfers on favorable terms (usually long-term credit or barter) of capital equipment (including military equipment) to underdeveloped free-world countries. It also includes trade missions, trade fairs and exhibitions, visits of technical personnel, trade manipulation and the like. (See Dodge Council Staff Study No. 12; cf. Minutes of 3 May 1955 Meeting of EDAC Working Group V.)

B. The United States Government is now moving rapidly toward a program which will entail the systematic determination and international negotiation of measures as necessary and appropriate to prevent or combat Bloc economic penetration of free-world countries. Adequate intelligence support of such a program would require several broad types of data and analysis. It would also require continuing coordination of intelligence production and substantive liaison between intelligence and action elements.

II. Problem

What are the assigned responsibilities and capabilities of the various U.S. government agencies and components for the intelligence support of such a program? What inter-agency groups exist or should be created for the coordination of action and intelligence support? In particular, what roles should be played by EDIC and RR/D/E?

(Covert activities and collection, both overt and covert, are beyond the scope of this memorandum.)

Document No. 1
Review of this document by CIA has determined that
☒ CIA has no objection to declass
☐ It contains information of CIA interest that must remain classified at TS S O
Authority: HR 70-2
☐ It contains nothing of CIA interest

64 APR 1980 Reviewer 018645

~~SECRET~~

~~SECRET~~

III. Conclusions

A. Within the United States Government, economic penetration by the Bloc is a matter of major economic defense concern. Therefore:

- a) It is an EDAC matter.
- b) Responsibility for the planning, inter-agency coordination and review of intelligence support should be assumed by EDIC.
- c) Within CIA, the intelligence coordination function should be performed by D/E, which already has the responsibility, the experience and the necessary channels (including those with OO and the DD/P organization).

B. Adequate intelligence support of a major U.S. effort to counter economic penetration would exceed the present capabilities of any single department or agency. The principal contributors would probably be: State (OIR, ECD and the geographic desks concerned), ICA (MDAC and RSR), Commerce (BFC) and CIA (ORR, OCI, OSI, ONE). Within ORR the principal contributors would probably be D/S and D/E. (D/T would be an important consumer).

C. The E/ST materials in D/E (on free-world traders and institutions as well as suspect transactions and procurement attempts) would be an invaluable and unique contribution. The E/ST collation system, facilities, and reference service (also unique) are well adapted to the requirements of such a program. For these reasons, E/ST alone is capable of maintaining the necessary surveillance of specific East-West economic transactions and the traders, institutions and techniques involved. In addition, E/C could contribute expertise and judgment in relating Bloc trade capabilities and plans to the specific vulnerabilities of free-world countries (areas of penetration), and in evaluating the significance of specific Bloc exports.

D. An adequate inter-agency mechanism for carrying out such a program would include:

- a) A surveillance and action group under EDAC, on the DCN model.
- b) An EDIC subcommittee.

~~SECRET~~

~~SECRET~~

IV. Policy Directives and Recommendations

A. The 1953 national policy directive, which established present economic defense policies, viewed the problem from the free-world side and described it as "decreasing reliance" or "excessive dependence". One of its stated "general objectives" is: "To decrease the reliance of free world countries on trade with the Soviet bloc." Other provisions describe how this objective can be accomplished, notably by encouraging trade within the free world and developing alternative markets and sources of supply. The directive also spells out the risks arising from excessive economic dependence on the Bloc: that the Bloc will be better able, first to procure strategic commodities and services, and, secondly, to influence the policies and economies of free world countries.

B. The recommendations made by the CFEF Steering Group in mid-1955 repeated, almost word for word, the national policy provisions described above, and added the following:

- "32. a. Give careful attention to attempted Soviet bloc penetration of less developed countries through trade and development and technical assistance offers, assuming initially that the then existing U.S. foreign economic policies and assistance programs will serve adequately as the general answers or counterweight to Soviet bloc economic penetration moves, but being prepared to take such additional action as the particular situation, examined in the complete context of total U.S. foreign relations and programs, is then deemed to require.
- b. Insure that U.S. foreign economic policies and programs take appropriate account of the desirability of reducing so far as practicable the scope for successful Soviet bloc economic penetration.
- c. Attempt to make the peoples and governments of less developed countries aware of the existence, nature and purpose of U.S. assistance, and discreetly employ suitable opportunities to advise such governments to keep alert to inappropriate activities or undisclosed designs for which Soviet bloc development assistance projects might be a mask."

- 3 -

~~SECRET~~

~~SECRET~~

C. Insofar as they went beyond the national policy directive, the CFEP Steering Group recommendations were derived from Staff Study No. 12, which had been produced several months earlier by EDAC Working Group V. This Staff Study, though it dodges some basic questions (especially with regard to a suitable U.S. program and its implementation), was carefully considered and fully coordinated. It assumes "initially" that existing U.S. foreign economic policies and assistance programs "serve as the general answers or counterweight to Soviet Bloc economic penetration moves". It then says: "The U.S. Government will wish to give careful consideration internally to every Soviet Bloc offer of economic development assistance to underdeveloped countries". This statement is later repeated as a recommendation. As to the need for intelligence support, the Staff Study recommends that the United States try to anticipate Soviet economic penetration moves and adapt its countermeasures to "the special and differing circumstances in each country which the Soviet Bloc seeks to penetrate"; and further says that psychological warfare countermeasures, though "beyond the ken of the working group", "may merit some consideration".

V. Administrative History

A. Arrangements and Proposals

The history of pertinent arrangements and proposals within the U.S. Government relating to Bloc economic penetration can be briefly summarized.

1. IWG Case No. 56, established on 16 September 1953, was a proposal for a study of Soviet economic penetration. It included an attachment, provided by MDAC, listing a number of specific questions which such a study should undertake to answer. The IWG producing agencies disagreed on the scope, importance and necessity of the proposed study; no action was taken; and the case was closed.

2. Beginning with the Indian steel-mill case in late 1954, EDAC Working Group V (at Executive Committee request) reviewed several specific major instances of Bloc economic penetration. (Its terms of reference contained a catch-all provision for "economic defense matters which have not been specifically assigned to any other EDAC Working Group and which lie outside the immediate scope of the Battle Act"). In 1955, it produced two papers on the subject, one for the OCB ("Economic Penetration of Asian Countries by the Soviet Bloc") and a later one for the CFEP (Staff Study No. 12). It also considered the subject at a meeting in August and another in September.

- 4 -

~~SECRET~~

~~SECRET~~

3. In mid-1955, a special staff was established within D/S/TF for the study of Bloc economic penetration. The work of this staff is continuing, and to date includes one paper.

4. In November, 1955, the terms of reference of Working Group III (the successor to Working Group V) in the new EDAC structure were revised by the EDAC Executive Committee so as to include responsibility for planning economic defense counter-measures to Bloc economic penetration.

B. Related Activities

1. On 16 January 1953 the EDAC Steering Group (now Executive Committee) established a working group on "decreasing reliance". This working group submitted its formidable report (ED/EC D-27) and simultaneously went out of existence on 29 July 1953.

2. IWG/CI-2 of 3 March 1953, prepared in response to a request of the EDAC Steering Group (now Executive Committee), recommended that CIA designate or establish a unit "to process current East-West trade intelligence". By memorandum of 16 March 1953, the AD/RR approved and directed the establishment of such a unit (D/E/ST). The IWG had recommended that this unit perform the function, among others, of East-West trade analysis, "showing the flow of specific commodities, the use of particular transshipment points, and the techniques of procurement employed". Trade analysis of this type would have been a very useful contribution to the study of Bloc economic penetration. Because of personnel limitations, however, D/E has never been able to carry out this IWG recommendation except in a limited and sporadic way.

3. At the request of the EDAC Steering Group (now Executive Committee), the IWG (now EDIC) on April 23, 1953 established a Subgroup on External Financial Operations of the Soviet Bloc (IWG Case 44). The final report of this subgroup (IWG/R-16, dated 11 March 1954), though rough and in some respects incomplete, contains a detailed analytical outline which could well serve as a guide for further studies on the financial aspects of economic penetration.

4. In March 1954, the EDAC Executive Committee approved a program for the study of "Soviet Bloc Trade Trends and Tactics", under which several papers were prepared for submission to COCOM including "The Soviet Bloc Trade Offensive in Latin America (ED/EC D-56/2, dated 26 May 1954).

- 5 -

~~SECRET~~

~~SECRET~~

5. On 17 May 1955, EDIC established a Case on Bloc exports of capital equipment and industrial materials. Under this Case, a study has been made of Bloc exports of machinery and transport equipment (Supplement 1 to EDIC/ID-13, dated 22 August 1955), and other such studies are planned.

6. From time to time, usually on request, OIR has produced a large number of regional studies on underdeveloped free-world areas, treating the subject of economic penetration with varying degrees of fulness and specificity. On several occasions, it has also compiled related materials (notably on trade agreements and commitments) for the use of action agencies.

7. FOA (including MDAC) has dealt extensively with the subject in the Fourth and (especially) Sixth Battle Act Reports and in the Second Quarterly Report of FOA for 1955.

8. Keen interest in the subject has been expressed by a number of Congressional committees and subcommittees, chiefly the Joint Subcommittee on Foreign Economic Policy and the Senate Subcommittee on Technical Assistance Programs. In 1955, the latter issued a Staff Study on Soviet Technical Assistance in Non-Communist Asia.

C. Current Research

1. As of mid-November 1955, OIR was bringing IR-6880 up to date at the request of EDAC Working Group V (now Working Group III). It has also been requested by the same working group (on September 29, 1955) to bring up to date its numerous earlier studies of economic penetration in Asia and Latin America.

2. In late November, 1955, OIR and ICA/MDAC were making an extensive compilation, on a crash basis, of materials relating to trade agreements and trade between the Bloc and Underdeveloped free-world areas (chiefly or exclusively in Asia). Simultaneously, the E Area of ORR was working on a similar (perhaps identical) request from the same requester (the Director of ICA).

3. Current research being done by the special staff in S/TF has not been ascertained.

4. No other major intelligence research on this subject has been found to be in progress within the United States Government.

- 6 -

~~SECRET~~

S-E-C-R-E-T

VI. D/E Responsibilities and Capabilities

A. Coordination

D/E has been assigned, and performs, the function of coordinating within CIA the production of all intelligence required for the support of economic defense policies and programs. Since the economic defense community bears a major responsibility with respect to Bloc economic penetration, the coordination of Agency intelligence support on this subject is a D/E function.

This type of coordination includes inter-office and inter-agency coordination, CIA representation on inter-agency working groups and committees for economic defense, and liaison between requesters and CIA producing elements. It also involves the following activities:

1. The provision of guidance on economic defense production requirements. When D/E receives a request for economic defense intelligence support, or develops one on its own initiative, it must review the request for "reasonableness and validity" and revise it accordingly; must summarize previous intelligence on the same or closely related subjects; and must explain and justify the request to the producer(s). Apart from such individual requests, it must also keep the producers informed of pertinent economic defense activities, and help them to plan research for economic defense support.
2. The provision of working coordination - i.e., "bird-dogging" production in various ways, such as helping to determine what additional research is required, if any, helping to set and keep deadlines, suggesting and helping to evaluate source materials, methodology, etc.
3. The review of support papers with respect to economic defense significance and adequacy to meet the specific request and general economic defense needs.
4. Combining (incorporating, reconciling, adapting, etc.) contributions received from various producers.
5. Presentation in the most useful form for economic defense purposes.
6. Sanitizing the product, and getting approval to release it for the required use.

- 7 -

S-E-C-R-E-T

~~SECRET~~

B. Production

With respect to intelligence production, the chief D/E contribution would be based upon E/ST materials (on free-world traders and institutions as well as suspect procurement efforts and transactions in East-West trade). These materials are not duplicated elsewhere. They would be essential in analyzing the patterns and methods of Bloc procurement and the direction and character of efforts by the Bloc to expand its economic influence in the free world. The E/ST collation system and facilities, which are also unique, would be extremely useful, especially for the development of data on financial transactions.

With these and other intelligence materials (especially intelligence on supply positions and on the size, composition and trends of East-West trade), D/E could also give material assistance in relating Bloc trade capabilities and plans to the specific vulnerabilities of free-world countries and in evaluating the net advantage of individual transactions and trade agreements proposed or effected between Bloc and free-world countries and the significance to the Bloc of specific exports. In performing its assigned function of coordination, D/E would combine these materials with intelligence produced by E/ST, to evaluate the product for economic defense significance, and to present it in the form most useful to the other EDAC agencies.

- 8 -

~~SECRET~~

~~SECRET~~

Selected Bibliography

- A Program to Reduce Free World Reliance on Trade with the Soviet Bloc, ED/EC D-27, July 29, 1953 (SECRET). First in date, size, scope and insight. Two years in preparation. Primarily concerned with Western Europe, but includes data on non-European areas now in the limelight. Formidable reading. Valuable for treatment of concepts and definitions.
- The Soviet Bloc Trade Offensive in Latin America. ED/EC D-56/2, May 26, 1954 (CONFIDENTIAL). Packaged for COCOM. Rather disappointing.
- Recent Developments in Soviet Bloc Trade with South Asia. IR 6629, September 10, 1954 (SECRET). Especially comprehensive.
- Recent Sino-Soviet Economic Efforts to Penetrate Non-Communist Asia. IR 6880, April 5, 1955 (CONFIDENTIAL). The most recent and the best of a number of OIR Reports on this subject.
- Economic Penetration of Underdeveloped Areas by the Communist Bloc. CFEF Staff Study No. 12, June 1, 1955 (CONFIDENTIAL). Thorough, but non-committal on some vital questions (especially those relating to a suitable US program and its implementation).
- Recent Soviet Economic Activities in the Free World. ICA/ECD, July 11, 1955 (SECRET). A factual survey, effectively superseded by IP-412 (below). Detailed but frequently in error.
- Sino-Soviet Bloc Exports of Machinery and Transport Equipment to the Free World. Supplement 1 to EDIC/ID-13, August 22, 1955. (CONFIDENTIAL). Interesting but not sufficiently complete or detailed. Interpretation very inadequate. See also: EDIC/ID-13, April 27, 1955 and EDIC Case 10, May 17, 1955.
- Special Survey of Select Soviet Bloc Economic Activities in Certain Free World Countries. CIA/RR IP-412, September 22, 1955 (SECRET). A useful factual survey. Short on analysis and interpretation.
- Soviet Technical Assistance in Non-Communist Asia. Staff Study No. 3, Senate Subcommittee on Technical Assistance Programs, June 10, 1955 (UNCLASSIFIED). A good unclassified account. Detailed and generally accurate.

- 9 -

~~SECRET~~